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Convergence of IAS with IFRS: Theoretical Aspects and Present Status in India

Amit Kumar Chakrabarty *

Abstract

This paper analyses the theoretical aspects relating to convergence of Indian Accounting Standard (IAS) with International Financial Reporting Standard (IFRS). The expected date of implementation of converged Indian Accounting Standard (Ind AS) with IFRS has been spelt out with revised road map and latest recommendations by the ICAI. The Government of India promised to Converge Indian Accounting Standards with IFRS issued by IASB from April 1, 2011. Indian companies are likely to shift to IFRS from 1st April 2016. Convergence Status in India has also been highlighted elaborately with latest information. The author concluded incorporating a view of Chairman, IASB, which states that only adoption of IFRSs instead of convergence can lead to a single set of high quality global accounting standards.

Key words: Convergence, Adoption, IFRS, IAS, MCA, ICAI, IASB, Ind AS.

Introduction

Dependable, unswerving and homogeneous financial reporting is important part of good corporate governance practices worldwide in order to enhance the trustworthiness of the businesses in the eyes of investors to take informed investment decisions. Kept in mind the above slogan, Accounting Standards Board (ASB) was constituted by ICAI in 1977 and the first set of Indian Accounting Standards (IAS) was formulated in the 1980s. IASs were based on the international standards issued by the International Accounting Standards Committee (IASC), the predecessor to the International Accounting Standards Board (IASB) responsible for developing IFRS. But

*Assistant Professor in Commerce, Chakdaha College, Nadia, India; Email: dr.amitkbb@gmail.com

there are shortcomings in Indian GAAP, especially because it has failed to keep pace with changing international standards. . Financial reporting made headlines when in 2005 the European Union adopted the International Financial Reporting Standards (IFRS). IFRS made headlines in India with the announcement that Indian GAAP (generally accepted accounting principles) will converge with IFRS. The financial reporting standards currently followed in India are a combination of the standards notified by the Ministry of Corporate Affairs, guidance issued by the Securities Exchange Board of India (SEBI), guidance from the Institute of Chartered Accountants of India (ICAI), and industry-specific guidance from regulators. In pursuance of G-20 commitment given by India, the process of convergence of Indian Accounting Standards with IFRS has been carried out in Ministry of Corporate Affairs through wide ranging consultative exercise with all the stakeholders. Thirty five Indian Accounting Standards converged with International Financial Reporting Standards (henceforth called IND AS) are being notified by the Ministry and placed on the website. . These are: IND ASs 1, 2, 7, 8, 10, 11, 12, 16, 17, 18, 19, 20, 21, 23, 24, 27, 28, 29, 31, 32, 33, 34, 36, 37, 38, 39, 40, 101, 102, 103, 104, 105, 106, 107 and 108. The Ministry of Corporate Affairs will implement the IFRS converged Indian Accounting Standards in a phased manner after various issues including tax related issues are resolved with the concerned Departments. It would be ensured that the implementation of the converged standards in a phased manner is smooth for the stakeholders. The purpose of the paper is to highlight the theoretical aspects relating to convergence and present status of IAS-convergence in India.

Objectives

The objectives of this present article are:

- to discuss about the theoretical aspects relating to convergence of IAS with IFRS
- to discuss about the need and benefits of convergence
- to discuss about the precaution of convergence
- to discuss about the issues and challenges relating to convergence
- to discuss about the status of convergence in India

Methodology

The study is based on the information collected from different sources like ICAI website, MCA website, other websites, articles from reputed national and international journals, news papers and reputed reference books related to this field.

IFRS - International Financial Reporting Standards (IFRS) are a set of global accounting standards developed by the International Accounting Standards Board (IASB) for the preparation and presentation of public company financial statements. IFRS has replaced the older term International Accounting Standard (IAS) since 2001. International Financial Reporting Standards comprise:

1. International Financial Reporting Standards (IFRS) - standards issued after 2001.
2. International Accounting Standards (IAS) - standards issued before 2001.
3. Interpretations originated from the International Financial Reporting Interpretations Committee (IFRIC) - issued after 2001.
4. Standing Interpretations Committee (SIC) -issued before 2001.

The International Accounting Standards Committee (IASC) issued IAS from 1973 to 2001. In April 2001, the International Accounting Standards Board (IASB) adopted all IAS and began developing standards called IFRS.

Objectives of IFRS

The major objective of IFRS development is global harmonization in preparation and presentation of company's financial statement. Some additional objectives are to create the global financial reporting Infrastructure, generate sound business sense among the beneficiaries, generate the dimensions of fair presentation of financial statement and maintain higher transparency of financial statement and mobility of capital.

Meaning of Convergence with IFRS

In this context, 'convergence' means to achieve harmony with IFRSs. Convergence with IFRS implies to achieve harmony with IFRSs and to design and maintain national accounting standards in a way that they comply with the International Accounting Standards. Convergence with IFRSs means adoption of IFRSs with the aforesaid exceptions, where necessary. For a country to be IFRS-compliant, it is not necessary that IFRSs are applied to all entities of different sizes and of different public interests.

Need for Convergence with IFRSs

In the breeze of globalisation the World has become an economic village which make it imperative to have a single globally accepted financial reporting system. A number of multi-national companies are establishing their businesses in various countries with emerging economies and *vice versa*. More and more Indian companies are also being listed on overseas stock exchanges. The use of different accounting frameworks in different countries makes inconsistent treatment and presentation of the financial statements. The need for convergence with IFRS originates from this inconvenience. In order to have uniformity in presentation of financial results and position of a business entity, almost the world has agreed to adopt one single common accounting language-IFRS. In the same direction, Indian Accounting standard would need to converge with IFRS. Single set of globally accepted accounting standards has prompted many countries to pursue convergence of national accounting standards with IFRSs. Over 130 countries have accepted IFRS while India has converged its accounting standards with the international reporting standards .Currently, the US, Japan and India are the three main economies that have not adopted IFRS while Canada, Brazil and Russia switched to IFRS last year.

Benefits of Convergence

IFRS reporting expedites cross border acquisitions, enables partnerships and alliances with foreign entities and lowers the cost of integration in post acquisition periods. Group wise adoption of IFRS will eliminate the need for such multiple reporting, if IFRS is accepted or required in all countries of operation. The adoption of global standards may reduce the risk premium and consequently the cost of capital. Convergence facilitates companies seeking access to almost all of the world's stock exchanges. The convergence benefits the economy by increasing growth of its international business. Convergence with IFRSs contributes to investors the information that is more relevant, reliable, timely and comparable across the jurisdictions. The industry is able to raise capital from foreign markets at lower cost if it can create confidence in the minds of foreign investors that their financial statements comply with globally accepted accounting standards. Convergence with IFRSs also benefits the accounting professionals in a way that they are able to sell their services as experts in different parts of the world.

Convergence V/S. Adoption

India has not adopted the IFRS in full but it is revising its Accounting Standards (AS) to get them in line with the International reporting standards. Convergence means that the Indian Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) would, over time, continue working together to develop high quality, compatible accounting standards. Adoption would mean full-fledged use of IFRS as issued by the IASB by the Indian public companies.

IND AS

Indian Accounting Standards, which already converged with IFRSs are termed as Ind AS. So far 35 Indian Accounting Standards have been converged with IFRS, as per notification of the Ministry of Corporate Affairs (MCA) on February 2011. Thus, the number of Ind AS is 35.

IASB

International Accounting Standard Board (IASB) established in the year 2001 as an independent accounting standard-setting body, which consists of 14 members from nine countries and is based in London. This organization took over from the International Accounting Standards Committee (IASC) in 2001. It is funded by contributions from major accounting firms, private financial institutions and industrial companies, central and development banks, and other international and professional organizations throughout the world.

IFRS and IND AS

IFRS and Ind AS are not the same. India desires to converge with IFRS and not take on IFRS and there are some differences between IFRS and Ind AS. The terminologies are different as against the Indian Accounting Standards as shown below:

Indian Accounting Standards	IFRS
Balance Sheet	Statement of Financial Position
Statement of Profit and Loss	Statement of Comprehensive Income
Approval for the financial statement for issue	Authorization of the Financial Statement for Issue

Precaution of Convergence

There is a need to change other regulatory requirements to implement the Converged AS. The changes in the regulations relating to SEBI, RBI and IRDA are required to be aligned with IFRS. The Institute of Chartered Accountants of India is liaising with the respective regulators to enable a smooth transition.

Issues and Challenges

India has to face a number issues and challenges associated with ‘convergence’. At a micro-level, an immediate challenge is the cost of convergence. Other challenges include deficiencies in corporate practices, systems and processes. At a macro-level, however, the structural challenges include lack of trained professionals, diversified sources of industry-specific accounting guidance, and cultural barrier to accepting foreign accounting principles. A major issue for Indian regulators is the lack of IFRS knowledge and experience in the accounting and auditing profession here. There is a need to align the industry-specific accounting guidance's issued by various regulators. For example, the Reserve Bank of India issues guidance for banking companies, the Insurance Regulatory and Development Authority issues guidance for insurance companies, the Central Electricity Regulatory Commission issues guidance for electricity companies, SEBI issues guidance for listed companies, and the Ministry of Corporate Affairs too issues certain guidance. Certain fundamental requisites such as amendments to the Companies Act, notification of the converged standards, resolution of tax treatment under IFRS, etc are still to be completed. Skill development and technological changes is inevitable to cope with IFRS. Some IFRS require fair value approach to be followed but till date, no viable solution of objective fair value measures is available. Small and Medium-sized Entities (SMEs) will face problems in implementing the accounting standards because of the scarcity of resources and expertise and cost of compliance not commensurate with the expected benefits. Keeping in view the difficulties faced by the SMEs, the IASB is developing an IFRS for SMEs. Finally, nitty-gritty problems that are slowing the process down as well.

Status of Convergence in India

The Government of India has promised to convergence of Indian Accounting Standards with IFRS issued by IASB from April 1, 2011. The Ministry of Corporate Affairs, which is spearheading the plan of convergence in India, has set up a High Powered Core Group comprising various stakeholders, including SEBI, for convergence with IFRS by 2011. The Core Group is supported by two sub-groups, headed by Shri Y.H. Malegam, Chairman, National Advisory Committee on Accounting Standards and Shri Mohandas Pai, Director, Infosys and Member, SEBI Board, respectively. After detailed debates on the various implementation challenges and issues, especially those related to legal and accounting framework, transitional issues, and sector specific concerns, the following roadmap for convergence with IFRS has been finalized by the Core Group:

Road Map Issued by MCA

Phase	Date	Coverage
Phase 1	Opening balance sheet as of 1 April 2011*	1. Companies that are part of NSC 50 (Nifty 50) 2. Companies that are part of BSE Sensex (BSE 50) 3. Companies whose shares or other securities are listed on a Stock Exchange out side India 4. Companies, listed or not, having net worth exceeding INR 1,000 crore.
Phase II	Opening balance sheet as of 1 April 2013*	Companies not listed in phase 1 and having net worth exceeding INR500 crore
Phase III	Opening balance sheet as of 1 April 2014*	Listed companies not covered in the earlier phases

*If the financial year of a company commences at a date other than 1 April, then it shall prepare its opening balance sheet at the commencement of the immediately following fiscal year.

IFRSs would not be applicable for Unlisted companies which have a net worth of Rs. 500 crores or less and whose shares or other securities are not listed on stock exchanges outside India and also for SMEs

The roadmap for convergence with IFRS in respect of insurance companies, banking companies and non-banking finance companies is as follows:

Category of Company	Applicable Date
1. Insurance Companies	1st April, 2012
2. Banking Companies	
(i) All scheduled commercial banks and those urban co-operative banks (“UCBs”) which have a net worth in excess of Rs. 300 crores.	1st April, 2013

(ii) UCBs which have a net worth in excess of Rs. 200 crores but not exceeding Rs. 300 crores	1st April, 2014
(iii) UCBs which have a net worth not exceeding Rs. 200 crores and Regional Rural banks (RRBs)	IFRS not applicable, may adopt voluntarily.

3. Non-Banking Financial Companies ("NBFCs")

(i) All NBFCs which are part of NSE-Nifty 50, BSESensex 30, and have a net worth in excess of Rs 1,000 crore	1st April, 2013
(ii) All listed NBFCs and those unlisted NBFCs which do not fall in the above category and which have a net worth in excess of Rs. 500 crore	1st April, 2014
(iii) Unlisted NBFCs which have a net worth of Rs. 500 crores or less	IFRS not applicable, may adopt voluntarily.

SEBI has been impulsively involved in the process of convergence of Indian Accounting Standards with IFRS. SEBI has set up a group under the chairmanship of Shri Y.H. Malegam with representation from RBI, ICAI, accounting and auditing firms, and industry to discuss and submit comments on the exposure drafts issued by the IASB in an objective and streamlined manner. Since formation in February 2010, the group has had four meetings and has provided comments to IASB on the following exposure drafts:

1. Management Commentary (proposed new IFRS)
2. Financial Instruments: Amortised Cost and Impairment (IFRS 9)
3. Conceptual Framework for Financial Reporting
4. Fair Value Option for Financial Liabilities (proposed new IFRS replacing IAS-39)

After the enactment of the Companies Act, 2013, the ministry of corporate affairs has now shifted its focus on rolling out international reporting standards for Indian companies which were to be implemented beginning April 1, 2011. According to the draft plan, the ministry wants to implement the international financial reporting standards (IFRS) beginning with companies that have a net worth of over Rs 1,000 crore from April 1, 2015. In the second phase, both listed and unlisted companies with a net worth of over Rs 500 crore but less than Rs 1,000 crore will have to converge with the international accounting standards from the financial year beginning April 1, 2016. In the third and fourth phase, beginning April 1, 2017, smaller companies would need to prepare their accounts as per the international standards. Banking companies would be exempt from complying with the IFRS.

On 24th March 2014, revising its earlier road map, the Institute of Chartered Accountants (ICAI) has recommended that all listed and unlisted companies, having net worth of over Rs 500 crore, implement new accounting standards that converge with global norms from April 1, 2016 in one go. ICAI, the country's apex accounting watchdog, opines that the revised schedule would provide companies "ample time" to comply with standards that converge with IFRS norms. The norms converged with the International Financial Reporting Standards (IFRS) are referred to as Ind AS (Indian Accounting Standards). As per the new road map, Ind AS is to be implemented for preparing consolidated financial statements of listed and unlisted companies starting from April 1, 2016. It would be applicable for entities with more than Rs 500 crore net worth from the accounting year starting on or after April 1, 2016, with previous year comparatives in Ind AS for the year 2015-16. Earlier ICAI had recommended implementation of the converged standards (Ind AS) from April 1, 2015 in phases. The ICAI’s recommendation is to implement Ind AS only for consolidated financial statements. This would have the advantage that Ind AS would have no implications on tax as well as on computation of managerial remuneration and dividend distribution, among others. For such purposes, the existing notified Accounting Standards would continue to be used as is the practice in almost all countries that have adopted or converged with IFRS\. The revised road map, which was finalised by the ICAI during its meeting from March 20 to 22, 2014 has been submitted to the Corporate Affairs Ministry (MCA), which is expected to take decision in the matter shortly. The latest recommendations by the ICAI, which may or may not be accepted by the MCA, propose the following:

- Ind AS will be applied by the following classes of companies in preparing consolidated financial statements for accounting periods beginning on or after 1 April 2016, with comparatives for the year ending 31 March 2016 or later:

  - Entities with equity or debt securities listed, or in the process of listing, in or outside India
  - Companies having a net worth of Rs. 500 crore or more, with net worth calculated by reference to the stand alone audited balance sheet of companies as at 31 March 2014 (or the first balance sheet after that date)
  - Holding, subsidiary, joint venture or associate companies of the above two classes of entities
- Companies meeting the criteria for applying Ind AS would be required to continue applying Ind AS in subsequent consolidated financial statements even if they no longer meet the criteria for mandatory application
- Companies not required to apply Ind AS would apply existing notified Accounting Standards (AS) ('Indian GAAP'), which would also be used to prepare individual financial statements of the companies applying Ind AS in their consolidated financial statements
- Companies not required to apply Ind AS can optionally apply Ind AS instead of existing Indian GAAP on a voluntary basis, but the election would be irrevocable and consolidated financial statements would be consistently prepared in accordance with Ind AS in all subsequent periods.

The roadmap for financial institutions and insurance companies will be determined in a separate process, in consultation with the Reserve Bank of India (RBI) and the Insurance Regulatory and Development Authority (IRDA).

Conclusion

In the breeze of globalization and liberalization the world has become an economic village which makes inevitable to converge Indian Accounting Standard (IAS) with International Financial Reporting Standard (IFRS). The Government of India promised to Converge Indian Accounting Standards with IFRS issued by IASB from April 1, 2011. Indian companies are likely to shift to IFRS from 1st April 2016. In this context it should be kept in the mind that IASB Chairman Hans Hoogervorst recently gave a speech at an event hosted by the ICAI in New Delhi where he invited India to move to 'full' IFRS compliance soon due to his belief that only adoption of IFRSs can lead to a single set of high quality global accounting standards. In a recent blog K Raghu, President of the ICAI, noted his response “here I must mention that we have very consciously decided to converge with IFRS and not fully adopt it, mainly because a resurgent India is very different from its peers in the West or elsewhere, with its own priorities and preferences. There is no change in that stand as of now. However, in the longer term we may consider his viewpoint, but only after sorting out some crucial issues and testing the impact of our converged Ind AS on corporate sector".

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